

In all jurisdictions in which JBS operates worldwide, ethics and anti-corruption training is offered in order to ensure compliance with local laws.

[Emphasis added].

27. The statements referenced in ¶¶ 15 - 26 above were materially false and/or misleading because Defendants knew or were reckless in not knowing that they misrepresented and failed to disclose the following adverse facts pertaining to the Company's business, operational and financial results: (1) JBS executives bribed regulators and politicians to subvert food inspections of its plants and overlook unsanitary practices such as processing rotten meat and running plants with traces of salmonella; (2) According to Brazilian authorities, JBS "didn't care about the quality of the meat or food" they sold. "They didn't care at all about what they were selling to consumers;" (3) Defendants falsified documentation for exports to Europe, China and the Middle East; (4) Defendants arranged bribes and favors for inspectors ranging from political donations and favorable bank loans to small bribes including hams and other meat products; (5) in coordination with government inspectors whom Defendants used their direct influence in the Agriculture Ministry to select and whom they had bribed, Defendants' employees entered government offices, accessed computers and issued their own export certificates; (6) Defendants processing plants suffered from unsanitary practices such as processing rotten meat and shipping exports with traces of salmonella; (7) Defendants produced sanitary certificates regardless of the adulteration of the products. As a result, Defendants' statements about the Company's business, operations and prospects were materially false and misleading and/or lacked a reasonable bases at all relevant times.

The Truth Emerges

28. On March 17, 2017, *Reuters* published a report entitled “Brazil police accuse BRF, JBS of subverting food inspections,” stating in pertinent part:

Brazil police accuse BRF, JBS of subverting food inspections

March 17, 2017, 11:13:00 AM EDT By Reuters

(Recasts with companies involved, comments from JBS, police investigator, share reaction)

CURITIBA, Brazil, March 17 (Reuters) - Brazilian federal police raided dozens of meatpacker offices on Friday, including industry giants **JBS SA** and **BRF SA**, **following a two-year investigation into alleged bribery of regulators to subvert inspections of their plants.**

The probe, known as “Operation Weak Flesh,” had uncovered about 40 cases of meatpackers who had **bribed inspectors and politicians to overlook unsanitary practices such as processing rotten meat and running plants with traces of salmonella**, police said.

Police investigator Mauricio Moscardi Grillo said there was evidence of some companies manipulating certificates of meat for export to Spain and Italy, raising the risk of foreign restrictions on Brazil's powerhouse protein industry.

Police said they arrested three BRF employees and **two JBS** employees, as well as **20 public officials.**

Shares of JBS, the world's biggest meat producer, and BRF, the largest poultry exporter, fell more than 7 percent each in Sao Paulo trading.

JBS said in a securities filing that three of its plants and one of its employees were targeted in the probe, but its executives and headquarters were not targeted. The company said it followed rigorous quality standards and sanitary regulations.

BRF did not have an immediate comment on the investigation.

Brazil's agriculture ministry declined to comment immediately, calling a press conference for 4 p.m. local time (1900 GMT).

In a statement, police said more than 1,100 officers were deployed for 194 raids, and as many as 38 detention orders across six Brazilian states, in the largest-ever search and seizure operation by the federal police.

The food industry investigation is the latest of several sweeping probes into corruption in Brazil as a tougher judiciary takes on cozy relations between the

government and powerful businesses amid public outrage during a deep economic depression.

Police said regulators in the food-producing states of Paraná, Minas Gerais and Goiás helped producers place adulterated products in the marketplace. Food processors would also bribe state food safety auditors to issue fake sanitary permits and forgo normal oversight work.

(Reporting by Sergio Spagnuolo; Additional reporting by Pedro Fonseca in Rio de Janeiro, Guillermo Parra-Bernal and Brad Brooks in Sao Paulo; Writing and additional reporting by Brad Haynes; Editing by Daniel Flynn and Bernadette Baum)

[Emphasis added].

29. On this news, shares of JBS fell \$0.71 per share or over 9.2% from its previous closing price to close at \$6.96 per share on March 17, 2017, damaging investors.

30. On March 17, 2017, during aftermarket hours, *The Wall Street Journal* published an article entitled “Brazil Police Launch Massive Anticorruption Probe of Meatpacking Industry,” stating in pertinent part:

Brazil Police Launch Massive Anticorruption Probe of Meatpacking Industry

Police allege officials of companies including JBS SA and BRF SA bribed sanitary inspectors

By **ROGERIO JELMAYER** and **LUCIANA MAGALHAES**

Updated March 17, 2017 6:06 p.m. ET

SÃO PAULO—Brazilian authorities are investigating some of the world’s biggest meatpacking companies for allegedly bribing food-sanitation inspectors to approve sales to domestic and foreign buyers of meats that might otherwise have failed to pass muster.

Among the dozens of **firms targeted are JBS SA** and BRF SA, which both have substantial operations outside Brazil. JBS, the world’s leading meatpacking company, owns Swift Foods and a majority share of Pilgrim’s, both familiar U.S. brands. BRF is one of the world’s biggest chicken exporters.

“[The firms under investigation] didn’t care about the quality of the meat or food” they sold, said a Federal Police official, Mauricio Moscardi Grillo. “They didn’t care at all about what they were selling to consumers.”

Shares of JBS plunged 10.6% on Friday, and shares of BRF were down 7.6%. Brazil’s benchmark Ibovespa stocks index was down 2.4% on the day.

The investigation could threaten a planned initial public offer by JBS for its international operations, and could cause problems for a possible sale by BRF of a stake in one of its units as well, said Shin Lai, an investment strategist at São Paulo-based research firm Upside Investor. JBS announced in December a reorganization plan that includes an IPO in the U.S. of shares in its international businesses.

An inspector-veterinarian employed by JBS at one of its plants was allegedly involved in the scheme, documents provided by judicial authorities show. Police said an executive linked to JBS was also under investigation.

JBS, with units on five continents, said it and its units “rigidly follow” all regulations regarding health inspection of its products and supports all efforts aimed at punishing violations.

BRF said that it meets all regulations and that its products pose no risk to consumers in Brazil or abroad. The company added it was cooperating with authorities on the probe.

An Agriculture Ministry official said the ministry was still investigating how much of the affected meat and meat derivatives were exported, noting most of it was probably sold in the Brazilian market.

The official, Eumar Novacki, said participants in the scheme falsified sanitation certifications for beef and chicken as well as for hot dogs, bologna, animal feed and pet food.

“The crime against the Brazilian people is grave,” said Mr. Novacki, adding the Brazilian government was also concerned about the impact on the country’s image abroad.

“We’re big players in the world market, and consumers can seek products from our competitors,” he said. “We’re worried and we’re taking steps” to maintain confidence in Brazilian products.

* * *

Friday’s operation was one of the biggest on record in Brazil, authorities said. Police said 1,100 officers acting in six Brazilian states and the Federal District were

part of the operation, executing 38 arrest warrants and court orders to collect evidence and seize assets.

The police spokesman, Mr. Grillo, said Friday that some of the bribes went to political parties, but that police still don't know exactly how much. He didn't provide any names of politicians or parties.

[Emphasis added].

31. On March 17, 2017, during aftermarket hours, *Reuters* published an article entitled "Brazil police raid BRF and JBS meat plants in bribery probe," stating in pertinent part:

WORLD NEWS | Fri Mar 17, 2017 | 7:47pm EDT

Brazil police raid BRF and JBS meat plants in bribery probe

By Brad Haynes and Sergio Spagnuolo | SAO PAULO/CURITIBA, BRAZIL

Brazilian police raided the premises of global meatpacking companies JBS SA and BRF SA on Friday, as well as dozens of smaller rivals, in a crackdown on alleged bribery of health officials that could threaten \$12 billion in annual exports.

The probe, known as "Operation Weak Flesh," found evidence of meatpackers bribing inspectors and politicians to overlook unsanitary practices such as processing rotten meat and shipping exports with traces of salmonella, police said.

Police investigator Mauricio Moscardi Grillo said there was evidence of some companies manipulating certificates for meat exports to European markets, raising the risk of foreign restrictions on Brazil's powerhouse protein industry.

"We've never seen a scandal like this in the sector ... It's horrifying," said Alex Silva, a livestock analyst with Scot Consultoria. "This stains the entire system that Brazil has spent years building."

Brazil exported \$6.9 billion of poultry and \$5.5 billion of beef last year, according to industry groups, as producers ramped up shipments to China and started sending fresh beef to the United States.

Shares of JBS and BRF plunged 11.0 percent and 7.0 percent, respectively, in Sao Paulo. JBS, the world's biggest meat producer, booked net revenue of 170 billion reais (\$55 billion) last year from sales in 150 countries. BRF, the largest poultry exporter, booked net revenue of 39 billion reais in 2016.

Police said they arrested three BRF employees and two from JBS in Friday's raids, as well as 20 public officials.

JBS said in a securities filing that three of its plants and one of its employees were targeted in the probe, but its senior executives and headquarters were not targeted. The company said it followed rigorous quality standards and sanitary regulations.

BRF also said it followed industry regulations and was cooperating with authorities in the investigation.

Court documents cited recordings of BRF director Andre Luiz Baldissera allegedly discussing on March 13 how health officials could help defend the company after inspectors in Italy found traces of salmonella in four containers shipped from a plant in Goiás state in central Brazil.

The ruling by federal judge Marcos Silva also included transcripts of BRF government relations executive Roney Nogueira allegedly discussing bribery of health inspectors, including one called on to help avoid the closure of the same Goiás plant.

The judge also ordered that BRF Vice President José Roberto Pernomian Rodrigues be brought in for questioning.

Baldissera, Nogueira and Rodrigues could not be reached for comment.

PLANTS CLOSED

Brazil's Agriculture Ministry temporarily closed three plants cited in the investigation, one run by BRF and two run by smaller rival Grupo Peccin, and began removing their meat products from supermarkets.

Eumar Novacki, the ministry's executive secretary, said there was some concern that other countries would begin blocking shipments of Brazilian meat. Agriculture Minister Blairo Maggi will meet on Monday with foreign ambassadors to allay concerns.

Sergio De Zen, a livestock expert at the University of Sao Paulo, said other countries may be eager to block Brazilian exports in the fiercely competitive protein market.

"But the impact will not be as big as it would be if another country had discovered this problem," he said. "It is Brazil itself that is revealing this."

United States food safety body FSIS said it was in contact with Brazil's government and monitoring the situation. It said food supply in the U.S. was safe due to a re-inspection system applied to all imported meats.

The food industry investigation is the latest in a string of corruption probes in Brazil, as a tougher judiciary takes on cozy relations between the government and powerful businesses, backed by public outrage during a deep economic slump.

After investigations into political kickbacks on public works and oil and gas contracts, Friday's probe struck at the heart of the booming agricultural sector, one of the few bright spots in Brazil's economy and a major source of exports.

Police said there was evidence that meatpackers falsified documentation for exports to Europe, China and the Middle East.

Judge Silva wrote in his ruling that employees of some meatpackers, including BRF, arranged bribes and favors for inspectors ranging from political donations and favorable bank loans to small bribes including hams and other meat products.

In some cases, those inspectors would then allow employees of the meatpackers to enter government offices, access computers and issue their own export certificates, investigators said.

(Reporting by Brad Haynes; Additional reporting by Sergio Spagnuolo in Curitiba, Pedro Fonseca in Rio de Janeiro, Guillermo Parra-Bernal, Brad Brooks, Marcelo Teixeira and Alberto Alerigi in Sao Paulo, Mark Weinraub in Washington; Editing by Daniel Flynn, Marguerita Choy and Bernard Orr)

[Emphasis added].

32. On March 18, 2017, the *Associated Press* published an article entitled "Brazilian firms 'bribed inspectors to keep rotten meat on market' as plants raided in corruption probe," stating in pertinent part:

Brazilian firms 'bribed inspectors to keep rotten meat on market' as plants raided in corruption probe

By Associated Press

18 MARCH 2017 • 12:51AM

Two big Brazilian meatpackers bribed inspectors to keep rotten meat on the market, police charged on Friday in issuing dozens of arrest warrants, while a judge accused the Agriculture Ministry of betraying the country.

Part of the money allegedly paid by meatpackers JBS and BRF was channelled to two major political parties, including the one of President Michel Temer, police said after a two-year investigation.

Authorities warned that the case was a severe blow to the international image of Brazil's agribusiness sector, which officials have been counting on heavily for helping Brazil recover from its worst recession in decades.

Investigator Mauricio Moscardi Grillo said at a news conference that the two meatpackers used chemicals to improve the appearance and smell of expired meats. He said at least one executive reported that rotten meat was mixed with healthy meat to be sold to consumers.

Cheaper products like water and manioc flour were also blended with meat sold by the two companies, Grillo said, adding that three plants have been shut down.

The investigator said school children in the southern state of Parana were fed with dangerous meat. "They are getting food made of outdated, rotten and many times cancerous products so the economic interest of this mighty crime gang is obeyed," Grillo said.

Police said the meatpackers had direct influence in the Agriculture Ministry so they could pick the inspectors who would visit their plants. Those inspectors would produce sanitary certificates regardless of the adulteration of the products, police said.

In his decision to authorize arrests, Judge Marcos Josegrei da Silva said the Agriculture Ministry has a "staggering" involvement in fraud and corruption. "The ministry was taken hostage by a group of individuals that repeatedly betrayed their obligation of serving society," Silva wrote.

Grillo said some of the expired meat was exported to Europe. He said four containers of BRF meat contaminated with salmonella were stopped in Italy in 2016, but nothing was done against the company.

* * *

Novacki said there were "very small risks" in consuming meat processed by JBS and BRF. "It is not the majority of the meat. But there is (a risk)," he said. "The three or four plants where this happened were shut down today for us to see what happened in each of them."

Shares in JBS closed on Friday on the Sao Paulo stock exchange down more than 11 percent, while those of BRF fell almost 8 percent.